NACHA Operating Rules: An Update on Changes Ahead

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Reclamation Entries – Corrections to Rules Governing Authorizations

Approved: September 9, 2013; Effective January 1, 2014

This amendment adopts several technical and drafting corrections to the rules governing the authorization of Reclamation Entries.

Key Points:

• This amendment makes the Rules related to Reclamation Entries consistent with Reversing Entries, to the extent possible.
• This amendment should have no impact on ACH participants.
Person-to-Person via ACH (optional compliance)
IAT – Identification of Additional Parties
IAT – Identification of Country Names
Incomplete Transactions Clarifications
Use of the Tilde as a Data Segment Indicator
Editorial Clarification – Non-consumer receiver’s Obligation to Credit
Originator’s Account
Clarification of Third-Parties in the ACH Network

EFFECTIVE: MARCH 21, 2014
Introducing the WEB Credit

PERSON TO PERSON PAYMENTS
Definitions New and Changes

SECTION 8.63 “Person-to-Person Entry ” or “P2P Entry” new
a credit Entry initiated by or on behalf of a holder of a Consumer Account that is intended for a Consumer Account of a Receiver. A P2P Entry uses the Internet-Initiated/Mobile Entry (WEB) Standard Entry Class Code.

SECTION 8.22 “Customer Initiated Entry” modified
to “a credit Entry initiated by or on behalf of the holder of a Consumer Account to the Non Consumer Account of a Receiver”

SECTION 8.47 “Internet Initiated/Mobile Entry” adds
2) a credit Entry initiated by or on behalf of the holder of a Consumer Account that is intended for the Consumer Account of a Receiver, regardless of whether the authorization of such Entry is communicated via the Internet or Wireless Network.
Person-to-Person Rule Objectives

• Provide clarity and consistency about how to apply the Rules to P2P Payments

• Allows RDFIs to receive P2P transactions with standard formatting for use in providing transaction information to their customers

• Enable Originators and Third Party Service Providers to implement internal processes and procedures in order to improve operations and customer service, reduce costs, reduce risk and fraud, and minimize exceptions and disputes
Person-to-Person
Effective March 21, 2014       Approved: March 7, 2013

- Defines a P2P payment in the Rules;
- Creates new WEB Credit Entry specifically for P2P payments
- Clarifies in the Rules how Notifications of Change (NOCs) should be handled for P2P WEB credits and for bill payment CIEs;
Person-to-Person
Effective March 21, 2014  Approved: March 7, 2013

• Establishes standardized formatting requirements
  – the Company Entry Description in the Company/Batch Header Record contains a value that lets the Receiver know that the entry is a P2P transaction;
  – Identifies Sender in the Individual ID field
• Allows an Addenda Record for a WEB credit to include up to 80 characters of payment related information in free form text
P2P WEB Credit ≠ WEB Debits

- Different origination, authorization requirements and warranties than a debit WEB Entry
  - Debit WEB Entries require Origination Agreement and have additional authorization and risk management requirements concerning fraud detection systems and verification of Receivers and routing numbers
    - Credit WEB - No Origination Agreement
    - Credit WEB - No Receiver Authorization
    - Credit WEB - Additional ODFI Warranties do not apply
  - 2.2.2 Debit WEB Entries are subject to the risk management rule provisions that apply as a prerequisite to Origination
  - WEB Audit requirement does not apply to WEB Credits
  - P2P Debits consumer to consumer
    - Consumers’ originating debits to Consumers require Originator Agreement and all applicable Rules
P2P Payments via ACH – Formatting

- Individual Name = *Receivers name*
  - *Jenny Jones*
- Individual ID = *Originator (consumers’) name*
  - *Joe Jones*
- Company Name = *P2P Service Provider – FI or TPS*
  - *Acme P2P Service*
P2P Payments via ACH – Formatting

- RDFI Receiver’s Periodic Statement and other transaction reports to comply with Reg E
  - For P2P Company Name is Service Provider, not Originator
  - RDFI must provide the Receiver with the Originator’s (sender’s) name
  - Originator for WEB Credits is in the Individual ID Number
  - RDFI Must provide contents of Individual ID Number field to consumer only for WEB Credits
  - Not if the WEB Entry is a reversal of a debit WEB Entry
    - “REVERSAL” would appear in the Company Entry Description in the Company Batch Header Record
Impact to ODFIs

• Statementing
  – Like CIE, a WEB credit is originated by a consumer customer of the ODFI, so ODFI is required to satisfy periodic statement requirements by providing certain transaction information to the consumer Originator of a WEB credit
    • Posting date
    • Dollar amount
    • Payee name
    • Entry description
    • Account type and Account number
    • Amount of charges for services related to entry
    • Balances in account at beginning and end of statement period
    • Address and telephone number for inquiries or notice of errors

• Provide any necessary education for staff and customers and Vendors if applicable

This is the same information an RDFI provides to its consumer Receivers of ACH entries
P2P Payments via ACH – Formatting

• Entry Description
• Must contain a value that will let the consumer know the Entry is a P2P transaction in a way that is meaningful to the Consumer
  – Example: “P2P” or could refer to the trade name of a specific P2P payment service
  – For both the WEB Credit and any Funding WEB Debits
P2P Payments via ACH – Addenda Records

- WEB Credit may have 1 Addenda Record
- Addenda for WEB Credit can be in plain text
- Rule does not require ODFI to allow Originator to include payment related information in plain text format
- Rule does not require RDFI to provide information in the Addenda Record to the Receiver

- Rule adds an indemnification for the RDFI that states “an ODFI shall indemnify each RDFI from and against any and all claims, demands, losses, liabilities, and expenses, including attorneys’ fees and costs, that result directly or indirectly from the RDFI’s accurate communication or display to a Receiver of any information provided within the Payment Related Information field of an Addenda Record Transmitted by the ODFI with a credit WEB Entry.”
P2P Payments via ACH – Notifications of Change

• Clarifies the treatment of NOCs for CIEs and credit WEB Entries
• When CIE or WEB credit NOC is received by the ODFI, the ODFI required to make the changes, or provide the bill payment or P2P provider with the necessary information
• Within two Banking Days of the Settlement Date of the NOC or corrected NOC
• Regular NOC time frames apply
P2P Payments via ACH – Notifications of Change

• Be aware, all other Rule changes apply
  – Ie NOC requirements for Single Entries

• The September 2013 rule change will not apply to CIE Entries, as there is no clear method for an RDFI to determine if a CIE is a single or recurring Entry.
Optional Compliance

- For ODFIs in 2014
- RDFI
  - Must be compliant upon receipt of a P2P WEB Credit in March 2014!
IAT – IDENTIFICATION OF ADDITIONAL PARTIES
IAT – Identification of Additional Parties

• This Rule establishes a new Gateway obligation to identify within an Inbound IAT Entry:
  – (1) the ultimate foreign beneficiary of the funds transfer when the proceeds from a debit Inbound IAT Entry are for further credit to an ultimate foreign beneficiary that is a party other than the Originator of the debit IAT Entry, or
  – (2) the foreign party ultimately funding a credit Inbound IAT Entry when that party is not the Originator of the credit IAT Entry

• This Rule revises the description of the Payment Related Information Field of the IAT Remittance Addenda Record to establish specific formatting requirements for inclusion of the ultimate foreign beneficiary’s/payer’s name, street address, city, state/province, postal code, and ISO Country Code.

• The identification of the ultimate foreign beneficiary/payer takes priority in any case where a “for further credit to” Inbound IAT debit or credit Entry also contains other payment related information
IAT – IDENTIFICATION OF COUNTRY NAMES
IAT –Country Names = 2 digits

Clarifies that any country named within the following fields of an IAT Entry must be identified using that country’s 2-digit alphabetic ISO Country Code, as defined by the International Organization for Standardization’s (ISO) 3166-1-alpha-2 code list.

• ISO Destination Country Code (IAT Company/Batch Header Record)
• Originator Country & Postal Code (Third IAT Addenda Record)
• Originating DFI Branch Country Code (Fourth IAT Addenda Record)
• Receiving DFI Branch Country Code (Fifth IAT Addenda Record)
• Receiver Country & Postal Code (Seventh IAT Addenda Record)
• Payment Related Information Field (IAT Addenda Record for Remittance Information)
• Foreign Correspondent Bank Branch Country Code (IAT Addenda Record for Foreign Correspondent Bank Information)
INCOMPLETE TRANSACTIONS
CLARIFICATIONS
Incomplete Transaction Clarifications
Approved September 9, 2013; Effective March 21, 2014

This amendment modifies Article Three, Subsection 3.12.3 (Incomplete Transaction) and Article Eight, Section 8.50 (Incomplete Transaction) to clarify that an ARC, BOC, or POP Entry may also be considered an Incomplete Transaction regardless of whether the account that is debited is a Consumer Account or a Non-Consumer Account.

Key Points:
• This Rule adds the word “consumer” to clarify that the Receiver of an Incomplete Transaction is generally the owner of a consumer account, with one specific exception.
• The Rule also adds language to state that an ARC, BOC, or POP Entry may also be considered an Incomplete Transaction regardless of whether the account that is debited is a Consumer Account or a Non-Consumer Account.
• Additionally, this Rule clarifies that a WSUD must be accepted for any Incomplete Transaction involving any ARC, BOC, or POP Entry.
USE OF THE TILDE AS A DATA SEGMENT INDICATOR
Use of the Tilde as Data Segment Terminator
Approved September 9, 2013; Effective March 21, 2014

This amendment revises the field descriptions of “Originator City and State/Province” and “Receiver City and State/Province” within Appendix Three, Subpart 3.2.2 (Glossary of Data Elements) to clarify that, in addition to the backslash (\), the tilde (~) may be used as a data segment terminator.

Key Points:
• Use of the tilde as a segment terminator for ACH Entries was approved with the Healthcare Payments via ACH rule and became effective in September 2013. However, the earlier ballot overlooked adding the tilde to these two IAT fields.
• This change aligns the rules relating to the Data Segment Terminator for all Entries, with minimal anticipated impact to ACH Network participants.
EDITORIAL CLARIFICATION – NON-CONSUMER RECEIVER’S OBLIGATION TO CREDIT ORIGINATOR’S ACCOUNT
Editorial Clarification – Non-Consumer Receiver’s Obligation to Credit Originator’s Account

Approved September 9, 2013; Effective March 21, 2014

This amendment revises the text and title of Article Three, Subsection 3.3.1.3 (Receiver Must Credit Originator’s Account) to make the section’s intent clearer and easier to understand for ACH Network participants.

Key Points:
• This Rule revises the title of Article Three, Subsection 3.3.1.3 (Receiver Must Credit Originator’s Account) to read “Non-Consumer Receiver’s Records Must Reflect Payments Received from Originator.”
• The Rule also revises the text of Subsection 3.3.1.3 to state more clearly the Non-Consumer Receiver’s obligations with respect to updating its records (i.e., accounts receivables) to reflect receipt of a payment from the Originator.
• This change is editorial in nature only and does not alter any existing obligations of either the RDFI or its Receiver with respect to posting and processing credit Entries received.
CLARIFICATION OF THIRD-PARTIES IN THE ACH NETWORK
Clarification of Third-Parties in the ACH Network
Approved December 6, 2013; Effective March 21, 2014

• Elements of the Rule change
  • Definition of Third-Party Sender
  • Definition of Third-Party Service Provider
  • Third-Party Sender and Third-Party Service Provider Audit Requirements
Clarification of Third-Parties in the ACH Network

Approved December 6, 2013; Effective March 21, 2014

• Definition of Third-Party Sender
  • Focuses on two fundamental characteristics of a TPS:
    • Acts as an intermediary in transmitting entries between an Originator and an ODFI
    • Has an Origination Agreement
  • Clarifies that an entity can be a Third-Party Sender for a particular entry, and can also be a Originator of a different entry in its own right

• Definition of Third-Party Service Provider
  • States that Third-Party Service Providers can act on behalf of Third-Party Senders
  • Recognizes existing business arrangements in which a Third-Party Sender outsources functions to another Third-Party Service Provider
Clarification of Third-Parties in the ACH Network

Approved December 6, 2013; Effective March 21, 2014

- Third-Party Sender and Third-Party Service Provider Audit Requirements
  - Modifies titles and some language in rules compliance audit requirements to specifically state whether the audit provision applies to Third-Party Senders and Third-Party Service Providers
  - Ensures that the Third-Party Sender and Third-Party Service Provider responsibility to perform an annual rules compliance audit (to the extent they perform obligations of an ODFI or RDFI) is obvious to all Network participants
  - Includes a minor change for improved readability
- Rule effective date of March 21, 2014
- Rules audit changes apply to audits required to be completed by December 31, 2014
Clarification on Third-Parties in the ACH Network

- Two topics were included in the Request For Comment but were not balloted:
  - Clarification of identification of Originator in consumer debit authorizations
    - Significant support for concept
    - Rules and Operations Committee still reviewing how proposal would apply to Originator and/or payee identification in certain split transaction and other processing models
    - Topic might be balloted in future
    - In meantime, intent of existing rule governs – a clear and readily understandable authorization should identify the party to whom the Receiver intends to pay
  - Stop payment right would have acknowledged that authorization might have been given to a Third-Party
    - Proposal did not improve overall clarity of Rules
    - Many other instances where Third Parties service Originators or ODFIs that also would need to be similarly modified
Proof of Authorization for Non-Consumer Entries
Prenotification Entries – Reduction in Waiting Period for Live Entries

EFFECTIVE: SEPTEMBER 19, 2014
PROOF OF AUTHORIZATION FOR NON-CONSUMER ENTRIES
Proof of Authorization for Non-Consumer Entries

This amendment permits an RDFI to request proof of a Non-Consumer Receiver’s authorization for a CCD, CTX, or an Inbound IAT Entry; and requires that, upon receipt of an RDFI’s written request, the ODFI provide either

- (1) an accurate record evidencing the Receiver’s authorization, or
- (2) the Originator’s contact information that, at a minimum, includes (i) the Originator’s name, and (ii) Originator’s phone number or email address for inquiries regarding authorization of Entries.

Key Points:

- The record or information must be provided to the RDFI within ten banking days without charge.
- The Rule does not extend the return time frame for unauthorized Non-Consumer Entries, nor does it require an ODFI to accept a late Return if proof of authorization is not provided.
- This change facilitates the investigation and resolution of disputes over unauthorized Entries between entities with no relationship.

NOTE: As an ODFI, there will be a change to the Audit to include new Rule.
Alignment of Audit Requirement with Rules – Proof of Authorization

This amendment expands the current audit requirement under Appendix Eight, section 8.4(f) (Audit Requirements for ODFIs) to incorporate an ODFI’s obligation to provide proof of authorization or Originator contact information, when requested, for CCD Entries, CTX Entries, and IAT Entries to Non-Consumer Accounts.

Key Points:
• This change aligns this audit requirement with the recently-approved rule change requiring an ODFI to provide proof of authorization or Originator contact information for Entries to a Non-Consumer Account when requested to do so by the RDFI.
• This audit requirement is in addition to the ODFI’s existing obligation to verify that it provides the RDFI with such documentation for Entries to Consumer Accounts.
• Although DFIs are already responsible for compliance with all rules, regardless of whether they are explicitly listed in Appendix Eight, this Rule adds clarity to ensure consistency between Appendix Eight and the recently-approved rule language on proof of authorization for Entries to Non-Consumer Accounts.
PRENOTIFICATION ENTRIES – REDUCTION IN WAITING PERIOD FOR LIVE ENTRIES
Prenotification Entries – Reduction in Waiting Period for Live Entries

This amendment reduces the current Prenotification waiting period from six to three banking days, while not modifying any RDFI requirements or obligations.

Key Points:
• This amendment will allow Originators to transmit live entries following a Prenote more quickly. This will also benefit ODFIs who originate on their own behalf (mortgages, car loans, etc).
• If the ODFI receives a Return Entry or a Notification of Change in response to the Prenote by the opening of business on the second Banking Day following the Settlement Date of the Prenotification (that is, a timely return or NOC), the Originator is not be permitted to transmit subsequent Entries to the Receiver’s account until it has remedied the reason for the Return Entry or made the correction requested by the Notification of Change. These obligations remain unchanged from current Originator requirements for acting on returns and NOCs in response to Prenotes.
• If an untimely NOC in response to a Prenote is received by the ODFI beyond the second banking day deadline, the Originator is required to make the correction requested in the NOC within six banking days or prior to initiating a subsequent Entry to the Receiver’s account, whichever is later.
• ODFIs and Originators may need to revise agreements, policies or procedures to accommodate the reduced wait time for subsequent entries following Prenotes.
• This change should have no impact on RDFIs.
Person-to-Person via ACH (required compliance)
Dishonored and Contested Dishonored Return Related to an Unintended Credit to Receiver
Notification of Change – Removal of Change Code C04

EFFECTIVE: MARCH 15, 2015
Person-to-Person via ACH (required compliance)

- March 15, 2015 Person-to-Person via ACH payments required to use WEB SEC Code
- All DFIs must be compliant
DISHONORED AND CONTESTED
DISHONORED RETURN RELATED TO AN UNINTENDED CREDIT TO RECEIVER
Dishonored and Contested Dishonored Return Related to an Unintended Credit to Receiver

**Erroneous Debit**
1. Originator sends an erroneous debit file
2. RDFI returns debit
3. Originator sends credit REVERSAL
4. RDFI post credit and Receiver now has unintended credit

**Erroneous Credit**
1. Originator sends an erroneous credit file
2. RDFI posts credit
3. Originator sends debit REVERSAL
4. RDFI returns debit and Receiver now has unintended credit
Dishonored and Contested Dishonored Return Related to an Unintended Credit to Receiver

• New Rule now allows
  1. ODFI to dishonor returned debit as R62  
     1. ODFI warrants REVERSAL was sent  
  2. RDFI to Dishonor R62 as R77  
     1. If RDFI returned both entry & reversal  
     2. If RDFI was unable to recover funds
NOTIFICATION OF CHANGE – REMOVAL OF CHANGE CODE C04
Notification of Change – Removal of Change Code C04 (Incorrect Individual Name/Receiving Company Name)
Approved September 9, 2013; Effective March 20, 2015

This amendment removes the Notification of Change Code – C04 (Incorrect Individual Name/Receiving Company Name) from the NACHA Operating Rules.

Key Points:
• In certain scenarios, use of C04 by the RDFI may create compliance and liability challenges for the Originator, ODFI and the RDFI alike.
• After March 20, 2015, the Change Code C04 will no longer be available for use.
ACH Operator Edit for Return

EFFECTIVE: SEPTEMBER 18, 2015
ACH Operator Edit for Returns
Approved September 9, 2013; Effective September 18, 2015

This amendment incorporates an additional ACH Operator edit within the listing of ACH Operator file/batch reject edit criteria specified within Appendix Two.

Key Points:
• This edit requires ACH Operators to reject any batch of Return Entries in which RDFI returns and ACH Operator returns are commingled.
• This Rule reflects current processing requirements for RDFIs and will have no impact on any participants other than ACH Operators.
WHAT IS IN DEVELOPMENT

Risk & Quality Standing Rules Group
- ACH Network Risk & Enforcement Topics
- Improving ACH Network Quality

Product Innovation Standing Rules Group
- Payment-Related Information via Expanded Addenda Records

Compliance & Operations Standing Rules Group
- Return Reason Codes R03 (No Account/Unable to Locate Account) and R04 (Invalid Account Number Structure)
Risk and Quality SRG

• Issued ACH Network Enforcement and Risk Topics RFI/RFC in November 2013
  – High-risk origination and return rates
  – Reinitiation
  – Incomplete transactions and the integrity of payroll Direct Deposit
• Responses due January 13, 2014
• https://www.nacha.org/page/request-comment
Network Enforcement and Risk Topics

• Proposal related to Return Rate Thresholds
  – Lower the unauthorized debit threshold
    • Currently at 1.0%
    • Proposal – lower to 0.5%
  – Establish similar return threshold for administrative returns
    • Proposal – 3.0%
    • NACHA requests comments on whether administrative return rate should also apply to credits
  – Establish an overall return threshold for all debit returns
    • Proposal – 15.0%
    • Exclude RCK entries and returns from return rate calculations
Network Enforcement and Risk Topics

• Other enforcement/System of Fines proposals:
  – Allow RDFIs to provide return rate data directly to NACHA
  – Expand NACHA’s authority to initiate enforcement proceedings regarding improper authorizations
Network Enforcement and Risk Topics

• Proposal to address reinitiation practices
  – Define “Reinitiated Entry”
  – Specify formatting requirements for a valid reinitiated entry
    • Standard description of “REDEPOSIT” in Company Entry Description
    • Amount, Company Name, and Company ID must be identical as the original entry
  – Identify improper reinitiation practices
    • Adding fees to amount of reinitiated entry
    • Breaking into multiple, smaller amount transactions
    • Reinitiating unauthorized entries
  – Permit RDFIs to return improperly reinitiated entries based on Receiver dispute
    • NACHA requests comment on whether customer written statements are appropriate
Network Enforcement and Risk Topics

• Proposals related to Third-Party Sender Topics
  – Explicitly state Third-Party Sender obligation to monitor, assess and enforce limitations on their customer’s origination and return activity
  – Explicitly obligate Third-Party Service Providers’ and Third-Party Senders’ to provide proof of completion of Rules compliance audit to their ODFIs, if requested, in order for ODFI to comply with request from NACHA
Network Enforcement and Risk – Additional RFI Topic
Incomplete Transactions For Payroll

• The recent rule on Incomplete Transactions covers only consumer accounts
  – Industry did not support an extension of the return timeframe on debits to non-consumer accounts

• An additional scenario has surfaced in which a debit is made to fund a business’s payroll, but the corresponding payroll credits to employees are not made
  – Recent case in which a TPS ceased processing
  – Debits frequently are to small businesses
  – Employees do not get their Direct Deposits
  – Results in RDFI impact, and reputation risk for the ACH Network
Risk and Quality SRG

• Issued ACH Quality Fees RFI/RFC in November 2013
  – NACHA Board 2013 Plan of Work initiative
    • “Develop proposal to shift some of the costs of exception processing to the party causing the exception; issue RFI/RFC as appropriate”
  – The primary objective is to improve ACH Network quality by reducing the incidence of exceptions
  – By establishing fees for specific types of exceptions:
    • ODFIs would have direct financial incentive to implement processes and tools with their Originators to reduce the number of exceptions
    • RDFIs would receive partial recovery of exception processing costs
      – RDFIs would receive additional benefit from lower volume of exceptions

• Responses due January 13, 2014
• https://www.nacha.org/page/request-comment
ACH Quality Fees

• Based on research and analysis, consultants developed the following recommendations:
• Establish economic incentives for certain types of exceptions:
  – Erroneous Data Fee
  – NOC Fee
  – Unauthorized Fee
• For purposes of the RFC, the industry is asked to comment on a estimated range for each type of fee
ACH Quality Fees – Additional RFI Topic

Could an “NOC Fee” (assuming it is approved) also be used to create better incentives for ODFIs and RDFIs to use the prenotification process, by providing a ODFIs with a positive response to prenotations?

For example:

- “Prenote Response Fee”
  - A fee that would apply when an RDFI responds to a prenotification with a new type of NOC that would be defined to mean “account information is valid”
  - Could be the same level as other NOC Fees

- Under this approach, an Originator would always receive one of the following responses to a prenote:
  - An NOC meaning “account information is valid”
  - An NOC meaning “information is not valid”
  - A return
Product Innovation SRG

• RFI on Payment Related Information via Expanded Addenda Records anticipated for 1Q 2014
  – Possible expansion of number of Addenda Records available for use with ACH payments to up to nine for all SEC Codes that now have zero or one Addenda Record allowed
  – Possible increase of number of Addenda Records allowed for CTX, ENR, and TRX or remove the 9,999 limitation entirely
  – Possible creation of additional Addenda Type Codes
  – Possible requirement for RDFIs to provide information in the Addenda Records to consumer Receivers
Compliance and Operations SRG

- Request for Comment issued in August on proposal to clarify the distinctions between Return Reason Codes R03 (No Account/Unable to Locate Account) and R04 (Invalid Account Number Structure)
  - RFC closed September 20\textsuperscript{th}
  - Due to responses received, topic will not be moving forward
    - In general, the proposal was supported as providing some benefit; however, comments indicated some concerns.
    - The largest concern was that the cost would likely outweigh any benefits of this proposed change.
    - SRG believes that going forward with a ballot would likely not be successful.
    - The decision has been made to not pursue a ballot on this topic at this time.
Questions?

Have a question? Select Q&A from the top tool bar and “Type your question for the presenter”. To submit, click “Ask”.

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